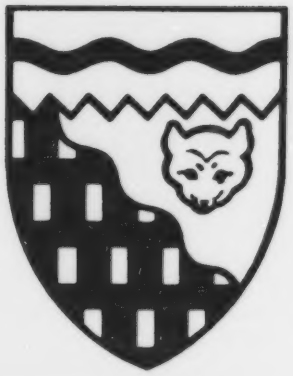
# 1988-1989
# Budget Address



**Presented by the Honourable Michael A. Ballantyne**
**Minister of Finance**
**at the Second Session of the Eleventh Legislative Assembly**
**February, 1988**

**NORTHWEST TERRITORIES**

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## INTRODUCTION AND OVERVIEW

**MR. SPEAKER:**

I am pleased to present to members of the Legislative Assembly the first budget of the Eleventh Assembly and my first budget as Minister of Finance. I would like to take this opportunity to thank my colleagues in the former government, the Minister of Finance, Mr. Butters, and Messrs. Pedersen, McLaughlin and Pudluk, and my new colleagues in the Cabinet, all of whom had to make many hard decisions in order that I could bring forward this restraint budget.

The 1988-89 budget is a response to difficult challenges. First, it maintains the long-standing Government of the Northwest Territories priority of improving the quality of essential services to residents of all regions. Secondly, it sustains development of the capital infrastructure needed to provide our residents with access to facilities and to support our economic development. Thirdly, it achieves these goals without jeopardizing our government's fiscal integrity and by striking a prudent balance between expenditure needs and available financial resources.

Mr. Speaker, I believe that the budget that I am tabling today meets these goals. Furthermore, I believe it begins to set the stage for our new government's future directions.

The government recognizes, however, that the budget falls short of addressing all capital and program needs. Meeting these needs is a daunting task which will require time and substantially increased funding from the federal government. In the meantime, expenditure restraint must be exercised to ensure that funds are spent wisely and targetted to the areas of greatest need. We must also make all efforts to maintain the financial integrity of the government through expenditure control rather than through tax increases. Mr. Speaker, I am pleased to report that in this budget there is no increase in taxes.

During the current budget year, our expenditures outstripped our revenues by a wide margin. Last year's decision to incur a budgetary deficit and to draw down on our accumulated surplus was based on the previous Cabinet's assessment of the economic situation of the Northwest Territories. It was felt that the serious economic downturn called for a substantial increase in government expenditure to stimulate the economy. Our large 1987-88 capital budget certainly mitigated the

recession by supporting employment and investment activity. It also contributed significantly to our long-term goal of providing adequate infrastructure to residents of all regions of the Northwest Territories.

For the next budget year, we are introducing a capital budget which is substantially smaller. It reflects our limited financial resources. We are introducing an operations and maintenance budget in which expenditure growth for most programs has been limited to unavoidable increases resulting from demand increases and inflation. The budget that I am tabling today reflects the difficult fiscal environment that we will likely continue to face over the next four years and beyond. It is an environment in which new government initiatives will be limited by a weak revenue base and by growing pressures imposed by population growth.

The Cabinet has already begun the process of setting its overall direction for the next four years. This direction, which will be described more fully later in this Session, will provide the basis for policy and program decisions throughout the term of this government and will be reflected in our budgetary priorities over the course of the current Cabinet's term.

In developing this year's budget, we have restored some flexibility to our financial position to provide a stable base from which to develop a new direction and to undertake new initiatives. Nevertheless, given the need for restraint, these actions will likely be taken by redeploying our financial resources. This budget does not attempt to anticipate any changing priorities of the new Legislative Assembly.

## THE ECONOMY

Before reviewing our fiscal position and outlining our budgetary strategy, I would like to describe some of the more important features of the economic environment in which our decisions were made.

### THE EXTERNAL ENVIRONMENT

Changes in international markets for our basic resources and changes in the Canadian policy environment are key determinants of the economic performance of the Northwest Territories.

Market conditions for our basic natural resources have improved over the last year. Prices of our main mining exports have firmed: gold prices were up, on average, about 10% from their 1986 level, lead prices were

up approximately 50%, silver prices increased over 20% and zinc prices firmed. The price of oil also improved although it remained volatile and well below its level of the first half of the decade. Fur prices posted their strongest performance in years and in the case of some species jumped by 50 per cent or more.

Financial market developments had mixed effects on our economy. Interest rates were on an upward trend until early fall but retreated in the last quarter. The overall effect of interest rate changes on our capital-intensive primary industries was therefore minimal. The Canadian dollar moved up vis-a-vis the United States dollar thereby causing our export industries to lose some of the benefits of commodity price increases. Finally, the mega slide in stock markets on that Black Monday of the 19 of October raised the concern that as a result of reduced consumer and investor confidence, our mining firms may find it more difficult to raise equity on terms as favourable as previously.

On the policy side, the two key developments in Canada were the negotiation of a free trade agreement with the United States and the finalizing of the first phase of tax reform. The free trade agreement should, on average, benefit our economy by eliminating tariffs for our mining exports to the United States and by lowering costs of imports. A truly disappointing part of the agreement is the failure by Canada to negotiate exemptions for aboriginal Canadians from the United States Marine Mammals Act which prohibits imports of products from some of our important animal species such as polar bears, seals and walrus. To ensure that our economy benefits from the agreement, the federal government must address a number of outstanding fundamental issues. These include land claims and resource revenue sharing, and a comprehensive resource management system which is sensitive to northern interests. Furthermore, we need ironclad assurances that monetary settlements resulting from land claims which may be used to support northern businesses will be excluded from countervail action.

The other significant development was the announced implementation as of January 1, 1988, of the first stage of tax reform which deals with changes to personal and corporate income tax. The Northwest Territories is supportive of the objectives of Phase I of tax reform and believes that they have by and large been achieved. However, we are disappointed that in many areas the reform measures did not take sufficient account of the different regional impacts of the tax changes. For example, I expect that changes to personal and corporate income tax will adversely affect flow-through share financing, one of the main sources of funds for mining exploration over the last few years. Similarly, the 10 per cent tax on telecommunications services will impose a proportionately

greater burden on residents of the north. These are alarming side-effects of federal tax reform.

In addition, Phase II of tax reform, marked by the introduction of a national sales tax or value added tax, will be more costly for northerners. I intend to apply special emphasis on this area: with costs 110 per cent and 70 per cent higher than the national average in places such as Gjoa Haven and Fort Good Hope, a general national sales tax would impose a hardship unless it provided for adequate corrective measures for northern consumers.

## THE NORTHWEST TERRITORIES ECONOMY

As anticipated in last year's budget address, some segments of the Northwest Territories economy performed poorly last year. Total expenditures in the Territories, after adjustment for inflation, are expected to have declined by over 10 per cent and total employment by approximately 1 per cent. The decline is notably traceable to reduced levels of activity in metal mining and the fall-off in oil and gas investment. Employment in the goods producing industries fell by over 12 per cent in 1987.

For 1987, private investment is expected to register a 35 per cent decline to a level of $630 million. This will be the fifth consecutive year of decline in private investment. This sustained decline is partly explained by the reduction in oil and gas related investment from its 1982 and 1983 peaks. On the other hand, capital investment by the two levels of governments had a stabilizing influence. Total public investment is expected to reach approximately $300 million, partly as a result of our large capital budget of last year.

### Primary Sector

Prospects for precious metal mining have brightened during 1987. Higher gold prices, combined with the favourable tax treatment of exploration expenditures, have resulted in close to $70 million of exploration expenditures last year. More importantly, some of these exploration programs have been very successful and may lead to the development of new gold mines.

In the oil and gas sector, further developments have started in the Beaufort Sea where two or three delineation wells will be completed at the Amauligak field. This program will involve total expenditures of slightly over $100 million in 1987 and 1988 and will result in seasonal production of 20,000 to 35,000 barrels a day commencing in the summer of 1988. Favourable results from this program could lead to the

construction of a 20 or 24-inch pipeline from the Beaufort Sea to Edmonton with construction starting in the early 1990's. Under such circumstances, private investment could return to its early 1980's highs of $1.5 to $2 billion. An early settlement of land claims is, however, critical to the orderly development of our energy sector.

Resource harvesting industries have benefitted from price increases. Fur prices have, on average, increased in excess of 30 per cent early in the year and have remained firm through the remainder of the year. Marten pelts, whose value accounts for the highest proportion of Northwest Territories production, had a price increase of over 80 per cent. These price increases have provided a much needed stimulus to cash incomes in our communities.

**Service Sector**

The service producing sector provided a stabilizing influence on the economy last year. Service sector employment, which accounts for 79 per cent of total employment, grew by over 2 per cent and partly compensated for the large employment losses in the primary sector.

Tourism has been an expanding area of the service sector in recent years. The papal and royal visits of 1987 have given the Northwest Territories broad international exposure which should support tourism's growth.

## ECONOMIC OUTLOOK

Mr. Speaker, there are indications that the economy is now poised for a resumption of growth. After the large economic downsizing that started in 1985, the economy should return to positive real growth this year. For 1988, mining output will show some year-over-year decline due to the closure of the Pine Point and Salmita mines which took place during 1987. However, an increase in expenditures on mining development is expected. This investment is likely to lead to the opening of new precious metal mines before the end of the decade. Oil production will be higher due to Beaufort Sea seasonal production and investment by the oil and gas sector will increase. The service producing sectors will continue to grow in 1988. Overall real economic growth is expected to rebound.

## FISCAL POSITION

Mr. Speaker, let me now review the government's 1987-88 financial operations and its fiscal position as we enter the 1988-89 fiscal year.

The budget presented one year ago was the largest in the history of the Northwest Territories. It accelerated our long-term capital construction plan by drawing down much of our accumulated surplus. It also had significant economic benefits as it helped shore up the economy in a year of anticipated economic downturn. Our 1987-88 Main Estimates projected total expenditures of close to $790 million of which $166 million were earmarked for capital expenditures. The total projected 1987-88 deficit was $55 million and was expected to be financed partly by using up all our accumulated surplus and partly by accumulating a deficit of $16 million, after allowing for approximately $7 million of supplementary estimates over the 1986-87 revised forecast.

The revised forecast for 1987-88 revenue and expenditure contains some very encouraging changes to the fiscal outlook presented in last year's budget. I first advised members of these anticipated improved results in the Fall session at the time I tabled Supplementary Estimate number 3.

My revised 1987-88 forecast is that total expenditures will be $811 million, or $34 million higher than what was projected in the last Main Estimates after allowances for lapses and supplementary appropriations. Projected revenues should amount to $766 million, or $45 million more than was projected last year. I wish to emphasize these are estimates based on the best available information at this time. Final results will not be known until several months after the year-end when the Territorial Public Accounts will be tabled.

Mr. Speaker, to ensure that members gain a clear understanding of the changed 1987-88 forecast that I announced in November, I am tabling a detailed explanatory table as part of the Budget Address. The table is printed at the end of the Address and is referenced as Appendix A.

First, for 1986-87, members will see from the table that actual revenues were $13.8 million higher than anticipated in last year's budget address. Actual expenditures were also lower due to $10.3 million in capital projects being carried over to the 1987-88 fiscal year. These changes resulted in a 1986-87 budgetary surplus of $9.9 million, up from the $14.7 million deficit projected in the 1987-88 budget address.

After adjustment for additional requirements of $1.8 million for the Business and Student Loan Funds, the accumulated surplus as of 31 March, 1987, increased to $64.8 million.

Secondly, for 1987-88, members will see from the table that forecast revenues are now $44.9 million higher than projected last year due to the $23 million transfer of forestry programs from the federal government, $6 million transferred from the federal government to fund expenditures related to the Young Offenders Act and other changes detailed in the table. Forecast expenditures were also higher due to expenditures for the transferred forestry programs, the Young Offenders Act and other items. Total forecast expenditures are now $33.8 million higher than they had been projected in the 1987-88 budget address.

Our forecast 1987-88 budgetary deficit of $55.4 million has therefore been reduced to a deficit of $44.3 million. Our accumulated surplus which stood at $64.8 million dollars at 1986-87 year-end is therefore forecast to be reduced to $16.7 million by year-end 1988-89, after accounting for adjustments to the Business and Student Loan Funds.

## 1988-89 FISCAL STRATEGY

Mr. Speaker, the 1988-89 fiscal strategy demonstrates the responsible approach to financial policy taken by this government. The main objectives that the Cabinet believes will be achieved by this year's strategy are as follows:

- Live within our means and not impose the burden of today's expenditures on tomorrow's taxpayers;
- Maintain the level and quality of essential services provided to the residents of the Northwest Territories;
- Continue to improve our capital infrastructure in support of economic development, business and employment opportunities;
- Continue government policies which support the private sector.

### LIVING WITHIN OUR MEANS

The overall fiscal policy of our government has not changed: it is to live within our means. This is the meaning of fiscal realism and the

only way to ensure that tomorrow's taxpayers will not be burdened with punitive levels of taxation and declining levels of public service in order to pay for today's expenditures.

Mr. Speaker, a major criticism of the government over the past few years has been the rapid growth in the size of our public service. Living within our means in 1988-89 will result in no growth in person-years.

Operations and maintenance expenditures will be limited to forced growth with all new initiatives met through reallocations within existing departmental budgets. The capital budget will be scaled down to a level comparable to the 1985-86 capital budget.

Mr. Speaker, fiscal realism leads to an acknowledgement of the disparity between our expenditure needs and our financial resources. On the expenditure side:

- The Northwest Territories has some of the highest expenditure needs in Canada to bring its programs and infrastructure to levels comparable to the rest of the country;

- The Northwest Territories has the highest population growth in Canada. From 1981 to 1986 the population grew three times faster than the Canadian average. One person in three is now under the age of 15, compared to one in five for Canada as a whole. In some communities such as Igloolik and Arctic Bay, there is over 40 per cent of the population under the age of 15. This situation makes the funding of forced growth a formidable task and one which absorbs most of our revenue growth.

On the revenue side:

- We have a very narrow tax base which cannot yield substantial increases in the level of our tax collections. We must carefully manage whatever additional tax room we may have to fund future inevitable increases in essential services;

- Our yearly grant from Canada is not providing us with adequate resources. On the whole, Formula Financing has worked well for both parties but the level of funding has not allowed our government to address important areas of need because of base inadequacies. Furthermore, discussions are just commencing with respect to funding arrangements beyond the 1989-90 fiscal year and federal funding levels beyond that date are uncertain.

## ESSENTIAL SERVICES TO NORTHWEST TERRITORIES RESIDENTS

Despite the need for expenditure restraint, residents of the Northwest Territories can rest assured that those services which provide access to health care, education, social services and housing will be maintained.

With $142 million expended by the Department of Education, $98 million by the Department of Health, $71 million by the Housing Corporation and $68 million by the Department of Social Services, close to 50 per cent of our budget is targetted to departments that have as their sole responsibility the delivery of essential services to residents of the Northwest Territories.

Although budgets will not experience an overall increase beyond growth caused by increased demand and inflation, reallocation of departmental expenditures and changes in delivery mechanisms should maintain current levels of services.

## CAPITAL INFRASTRUCTURE

The Government of the Northwest Territories is firmly committed to the continued development of capital infrastructure.

However, our needs for schools, health facilities, highways, municipal water and sewage systems and housing are enormous. It is beyond our current financial capabilities to meet them in a timely fashion. Despite the exceptionally large capital budget of 1987-88 and a further budget of over $117 million for the next fiscal year, we are barely able to make a dent in our total needs.

The 1988-89 capital budget will correct some of the more glaring capital inadequacies and should support economic development and improve the quality of life for Northwest Territories residents. However, the disparity between our capital needs and our financial resources is an issue that must be addressed if we are ever to achieve a level and range of facilities which is comparable to that taken for granted by other Canadians. We will have to demonstrate our needs to the federal government and convince it to provide us with adequate funding.

## SUPPORT FOR THE PRIVATE SECTOR

Fiscal policy can play a major role in supporting and encouraging the development of the private sector. The Government of the Northwest Territories is the single biggest source of spending in the Northwest Territories and the biggest client of business. Our expenditure policies are designed to ensure that jobs and business opportunities accrue increasingly to Northwest Territories residents.

Support for the economic growth of the Northwest Territories is provided by broad government-wide policies such as the Business Incentive Policy, the tendering process for construction projects and the involvement of communities in project management. Individual ministers have also implemented policies, in their respective areas of responsibility, to maximize the northern content of their budgetary expenditures.

## FEDERAL-TERRITORIAL FISCAL RELATIONS

Federal-territorial fiscal relations will continue to be of vital importance to our financial health during the coming years. The spirit of cooperation which is the foundation of these relations has been very productive. It has so far led to the devolution of numerous federal programs such as forestry and the Baffin Health Services and to transfers of statutory authorities to the territorial government with accompanying base funding transfers. And it has led, of course, to the design of the Formula Financing Agreement, a unique and innovative mechanism by which the federal government has transferred budget decision-making to the elected government of the Northwest Territories. Formula Financing was one of the most critical steps on the path to responsible government in the north. I wish to recognize the considerable effort and success of the previous Minister of Finance, Mr. Tom Butters, in negotiating the Canada-Northwest Territories formula-based agreement.

Two issues of great significance are on the agenda of federal-territorial discussions over the next two years: the renewal of the Formula Financing Agreement from 1990 onwards and the provisions of a Northern Accord.

The current Formula Financing agreement expires on the 31st of March, 1988, and contains a provision whereby it may be extended for two more years by mutual consent of both parties. Discussions on the extension have taken place over a number of months and no extension agreement had been signed when this budget address went to print.

Our government has agreed to work with the federal and Yukon governments to undertake a comprehensive review of Formula Financing so that if changes are introduced in 1990 they may better reflect the changing needs of the territories. Given the federal government policy of expenditure control, we will have to demonstrate to the federal government the extent of our needs. We should have no illusions: these

discussions will be difficult and we will have to muster all our resources to convince the federal government that the Formula must ensure that there is sufficient funding for the Northwest Territories and must address our base deficiencies.

The second major issue is the Northern Accord. The Government of Canada has expressed its clear commitment to shared management of northern energy resources and discussions have taken place to initiate the process of devolution of provincial-type responsibilities to the Northwest Territories. Mr. Speaker, I believe that the Northern Accord will result in greater independence for the Northwest Territories by allowing us to have responsibilities similar to those of other Canadian jurisdictions. An important consequence of the Accord should also be our access to natural resource revenues. This should lessen our financial dependence on the federal government. However, we must not view it as the answer to all our problems.

## BUDGETARY EXPENDITURES

Mr. Speaker, total 1988-89 expenditures before allowance for supplementary estimates and lapses will be $791 million, a decrease of $42 million, or 5%, from the expected 1987-88 level.

### EDUCATION

Education is an area of key importance to this government. The lack of basic education is a major factor preventing many northerners from taking advantage of job opportunities. We need an effective educational system which responds to local and territorial objectives, and which is shaped to prepare residents to benefit from economic opportunities.

In 1988-89, close to $142 million will be spent on the development and delivery of education in the Northwest Territories. Operations and maintenance expenditure growth is largely in response to increased enrolments. New initiatives include a school counsellor program, the creation of new divisional boards, the purchase of university seats reserved for native students from the Northwest Territories, the extension of grades in the communities, and a training program for school principals. These initiatives have been funded through offsetting budget reductions.

Capital expenditures will stabilize in relation to 1987-88. However, construction will begin in 1988-89 on new schools in Iqaluit, Pangnir-

tung, and Repulse Bay. Design will begin on new or replacement schools in Paulatuk, Tuktoyaktuk, Cape Dorset, Hall Beach, Baker Lake and Hay River. The design of a student residence for the Iqaluit Campus of Arctic College is also scheduled to begin.

## HOUSING

Meeting the housing needs of residents in the Northwest Territories continues to be a key objective of this government. This budget supports the delivery of over 300 housing units to respond to the increasing needs of our population.

In 1988-89, the NWT Housing Corporation will continue to have a strong community development focus, with emphasis to be placed on involving communities in housing decisions.

In support of the economic development of the territories, the Corporation will continue to split its construction contracts into separate supply, ship and erect components and fully implement the community based employment liaison committees.

As a new initiative this year, the Corporation is changing its tendering practice for materials. By tendering separately for certain types of lumber, the Corporation will provide greater opportunity for northern lumber mills to participate in housing projects.

Another new initiative for 1988-89 is the introduction of a housing replacement program. The replacement of 25 northern rental houses will result in cost savings to this government. The Canada Mortgage and Housing Corporation will contribute 75 per cent of the capital and operating costs of the new units. All new units will be built to the R2000 standard. This initiative reflects the Corporation's efforts to improve the quality of the existing housing stock and to increase the supply of energy efficient public housing.

## HEALTH

In 1988-89, close to $98 million will be spent by the Department of Health. Operations and maintenance expenditures will grow by 5.7 per cent over the expected 1987-88 level. This increase reflects the opening of the new Stanton Yellowknife Health Centre, the operation of the Kitikmeot Medical Boarding Home for residents coming to Yellowknife, and the initiation of new regional health boards for the Inuvik, Kitikmeot and Keewatin regions. Increases in operational spending will be partially offset by savings in billings from southern hospitals associated with the new hospital and boarding home.

1988-89 should see the transfer of health services from Health and Welfare Canada to the Government of the Northwest Territories. This transfer reflects the increasing responsibility of this government for providing services directly to the people of the Northwest Territories.

Capital expenditures will decrease substantially from their 1987-88 levels. This reflects the completion of the new Stanton Yellowknife Health Centre in fiscal 1987-88. New capital projects for 1988-89 include further development of the Baffin Regional Hospital renovation project. In addition, the Department of Health will be working in close coordination with the federal government in the completion of Health and Welfare Canada's 1988-89 Capital Plan.

## SOCIAL SERVICES

Mr. Speaker, initiatives in the Department of Social Services in 1988-89 will increase our ability to provide care in the Northwest Territories for adults and youths with special care requirements. The current budget does not, however, contain new funding for day care. We are currently discussing with the federal government a funding arrangements that would allow our government to undertake initiatives in this area.

A territorial treatment centre for children and adolescents with emotional and behavioural problems will be established. This, in addition to the establishment of a northern mobile assessment team, means that increased treatment as well as assessment support services can be provided in the north.

Expanded home support and personal care services will increase the resources available in the north for senior citizens and handicapped residents. Funding for both these program initiatives was reallocated from within existing departmental resources.

The Department's budget for 1988-89 also reflects the resources provided by the federal government for incremental costs associated with the implementation of the Young Offenders Act.

The Department's capital budget for 1988-89 includes approximately $4 million provided by a contribution agreement with the federal government for the construction of two young offender secure facilities, one each in the Western and Eastern Northwest Territories.

## PUBLIC WORKS AND HIGHWAYS

Today's Budget includes approximately $137 million in expenditures for the Department of Public Works and Highways. These expenditures

will support the Department's responsibilities for the design, construction and maintenance of the government's capital infrastructure. $123 million will be directed to the operations and maintenance functions of the Department. These primarily include the upkeep and operation of all government assets, property management, project management, maintenance of the territorial highway system and operation of the ferry system.

The Department's capital budget of $13.6 million will be directed to programs such as intra-territorial highway reconstruction, community dust control, wharves, community gravel supply, and energy conservation measures. In addition, Public Works and Highways will manage the design and construction of capital projects of all government departments. The approximate value of this work in 1988-89 is $86 million. This includes the inter-territorial highways reconstruction program which is expected to be transferred from the federal government during the 1988-89 fiscal year.

Through implementation of these combined budgets the activities of the Department will play an important role in stimulating and supporting the northern economy and maximizing the dollars that are spent in the north.

## MUNICIPAL AND COMMUNITY AFFAIRS

In 1988-89, the operating and maintenance budget for the Department of Municipal and Community Affairs will be just over $47.6 million. $35 million of this budget is in the form of grants and contributions. Financial assistance programs were reviewed to make cuts in those areas where reductions would have least impact on community programs. As part of this process, the per capita recreation contribution, which would have cost a total of $276,000, will no longer be paid. With an increase of $734,000 in the recreation salary subsidy program, the impact of the reduction will be minimized. This program, which provides 80 per cent of the salary for specified recreation staff will ensure that communities have skilled personnel to assist them with the delivery of local recreation services.

The Department's capital programs again account for a major part of the total capital budget for 1988-89. $38 million will be spent on capital infrastructure in communities. Each year a greater proportion of the total capital budget is being spent to replace existing municipal buildings, equipment and works. In these proposed estimates 22 per cent of the total is for replacement items.

## ECONOMIC DEVELOPMENT AND TOURISM

Mr. Speaker, in keeping with the high priority placed by this government on developing the northern economy, over $31 million will be spent by the Department of Economic Development and Tourism in 1988-89.

In order to promote the growth of the Northwest Territories' economy, the Department will develop a broad economic policy framework and strategies to support Cabinet direction, the Legislative Assembly's Special Committee on the Northern Economy and the private sector. The objectives of this policy are the expansion, diversification and stabilization of our economy with increased short and long-term employment and income opportunities for Northwest Territories residents. These strategies will stress those areas we can influence and build upon.

Almost $7 million has been allocated for the implementation of year two of the Economic Development Agreement. The three-year cost shared program with the federal government is valued at almost $39 million.

In conjunction with the Travel Industry Association, the Department will spend an estimated $2 million on a major marketing and promotion program primarily directed toward the United States and Canada. This is the second year of the program. Increased focus will also be placed on the unique tourist attractions that reflect our cultural and historical roots.

Other expenditure initiatives are being undertaken by the department in the areas of renewable resource development, venture capital and the development of tourist attractions.

## OTHER DEPARTMENTAL INITIATIVES

Mr. Speaker, initiatives planned by other departments of the Government of the Northwest Territories include expenditures by the Department of Culture and Communications to assist northern artists, performers, cultural organizations, community museums and libraries, and local radio stations and native communication societies. Language services continue to be a high priority. In addition to the $1.7 million to be spent by the Language Bureau, an additional $1.5 million is being negotiated under the Federal-Territorial Aboriginal Language Agreement, as well as $1 million for the provision of French language services.

In the upcoming fiscal year the Minister of Justice, in conjunction with the Minister of Social Services, will undertake a complete review and reform of family law. This important review will extend over the next

two years. A working group of representative northerners will supervise and direct the work of the project. Ethnological advice will be obtained where necessary. Traditional aboriginal concepts of the family will be studied and reflected in the reforms, where appropriate.

The Law Reform Committee of the Northwest Territories is working on three major projects at this time. Its Working Paper on the Jury Act was released in the spring of 1987, and the final report on that topic will be prepared after all comments have been received and considered. As part of its review of the Jury Act, the Department has initiated a legal interpreter training programme in conjunction with the Department of Culture and Communications.

A Working paper on the Mechanics' Lien Act is to be released shortly. Study of the Committee's next major topic, Business Corporations Law, has already started, and a Working Paper will be released later in the year. A major improvement to these laws will be of great assistance to the business community.

The Department of Renewable Resources will spend almost $39 million in 1988-89, which will allow it to pursue the Northwest Territories' goals of achieving a greater role in resource development, the transfer of resource management responsibilities from the federal government, and the development of a Northwest Territories conservation strategy.

In support of northern business, the Department of Government Services in 1987-88 has privatized two liquor stores, in Hay River and Inuvik. Similarly, the Department of Personnel's capital budget will decrease as a result of a decline in staff housing construction. No new units will be constructed in 1988-89, allowing for the private sector to meet housing requirements.

## TAXATION

Mr. Speaker, the budget I am presenting today contains no tax increases. The government chose to restrict expenditure growth instead of raising taxes this year because:

- in this budget, it was possible to maintain levels of services without tax changes;

- we should keep some tax room to meet future needs;

- the current tax burden in the Northwest Territories is very high if cost of living differences are taken into account. The tax burden must not be increased unnecessarily.

## TAX STABILITY

Maintaining stability in our tax system is very important for economic development. It allows business to plan with some degree of certainty. The Government of the Northwest Territories has until now abstained from changing the tax system every year, thereby maintaining a stable tax environment.

However, changes may be required as pressures from expenditure needs build up. The growing population of the Northwest Territories is creating an increasing demand for essential government services. It will not be possible to indefinitely fund these needs without tax increases.

## KEEPING TAX ROOM FOR FUTURE NEEDS

By avoiding tax increases at this stage, the little tax room available to us will be retained in reserve should higher taxes be absolutely necessary in future years.

The current rate of growth in the grant we receive from Canada may not continue. The current agreement had not yet been extended when this budget address went to print and we cannot be certain of future funding levels.

Should it be necessary to increase revenues in the future, I intend to do so only after giving residents of the Northwest Territories an opportunity to express their views on how the tax system should be structured. As a preliminary step in this process, I will, during this session, table a discussion paper on tax options with the Standing Committee on Finance. The tax system in southern Canada, where the economy is developed is not necessarily appropriate for the Northwest Territories, where the economy is still developing. I hope that any necessary changes to our tax system can be designed to take conditions in the north into account.

## THE HIGH TAX BURDEN IN THE NORTH

One of the critical issues over the next year will be the impact of federal tax reform on Northwest Territories taxpayers. In cooperation with many business and community leaders of the Northwest Territories, the government will make strong representations to the federal government. These representations will be designed to alleviate the negative impact of tax reform on the Northwest Territories, and particularly of those changes being proposed to the federal sales tax.

On average, Northwest Territories taxpayers pay much higher taxes than southern Canadians, although the Northwest Territories has the lowest tax rates in Canada. The burden of federal taxes removes any advantage Northwest Territories residents might derive from low territorial taxes. Federal taxation imposes a higher burden on northerners in a number of ways:

1) The burden of federal personal income tax is greater in the Northwest Territories. The higher incomes necessary to maintain a given standard of living in the Northwest Territories are taxed at a higher rate under Canada's progressive income tax system. Based on the most recent available data, residents of the Northwest Territories pay, on average, a higher proportion of their income in income tax than residents of any other province or territory, despite having the lowest personal provincial-territorial income tax rates.

2) The burden of federal sales taxes is also greater on northern residents than on southern Canadians. Most goods cost more in the north because of higher transportation and other costs. Federal sales taxes on fuel and on other items contribute to higher transportation costs. Northwest Territories residents therefore pay more in sales tax on an item than do residents of southern Canada.

3) The burden of some parts of federal tax reform will be heavier on northern taxpayers. The Government of the Northwest Territories estimates that the new federal tax on long distance calls will cost northern residents three times as much as it will cost southern Canadians. Federal sales tax will be even more costly to northerners when the current manufacturers sales tax is replaced by a value added tax.

The high level of federal taxation in the Northwest Territories leaves little room for the Northwest Territories government to raise taxes without imposing a difficult burden on Northwest Territories taxpayers.

## SUMMARY FISCAL OUTLOOK

Mr. Speaker, the fiscal plan that I am putting forward today involves total voted expenditures of $791.5 million and total revenues of $798.5 million.

On the expenditure side, $674 million has been allocated to operations and maintenance and $117 million to capital expenditures. Expenditures

and recoveries on projects undertaken for Canada and other third parties will amount to $31 million, bringing total spending to $822 million.

On the revenue side, $592 million, or 74 per cent, of our total revenue will come from the grant from the Government of Canada determined under the Formula Financing Agreement. The remainder will come from our own tax revenues and other transfer payments.

After allowing for supplementary requirements and appropriation lapses in the net amount of $5.6 million, a small budgetary surplus of $1.4 million is projected.

This restraint budget is achieved through an across-the-board control of new program initiatives and efforts by all departments to identify expenditure savings. With this budget, we have created the financial stability needed to allow the Cabinet and the Legislative Assembly to consider new initiatives, free from the immediate pressure of dealing with a deficit. Financial restraint will likely require that any new direction be funded through resource reallocations. However, the flexibility of our present fiscal position allows this to be more easily achieved.

## CONCLUSION

Mr. Speaker, in concluding I will summarize the 1988-89 budget of the Northwest Territories:

- It is a budget that contains no tax increases;
- It is a budget that recognizes fiscal realities;
- It is a budget that maintains the level and quality of essential services;
- It is a budget that improves our capital infrastructure;
- It is a budget that supports the development of northern businesses.

Mr. Speaker, I present to the Legislative Assembly for the fiscal year 1988-89 a balanced budget.

# APPENDIX A
# FISCAL POSITION

# TABLE A1
# GOVERNMENT OF THE NORTHWEST TERRITORIES
# PROJECTED FISCAL POSITION AT MARCH 31, 1988
# MILLIONS ($)

| | 1986-87 Final Results | | | | 1987-88 Projected Results | | | |
|---|---|---|---|---|---|---|---|---|
| | 1987-88 Budget Speech | 1986-87 Actuals | Increase (Decrease) | Explanation | 1987-88 Budget Speech | Current Forecast | Increase (Decrease) | Explanation |
| Revenues | 689.1 | 702.9 | 13.8 | $8.8 million, Young Offenders; balance, escalator changes | 721.3 | 766.2 | 44.9 | $23 million, forestry transfer; $6 million, Young Offenders; $6.5 million NWTHC; $4 million escalator changes; $5.4 million other |
| Expenditures | 703.8 | 693.0 | (10.8) | $10.3 million, capital carryovers to 1987-88 | 776.7 | 810.5 | 33.8 | $23 million, forestry transfer; $6 million, Young Offenders; $10.3 million, capital transfer from 1986-87, offest by $15 million carryover to 1988-89; other $9.8 million |
| **Annual Surplus (Deficit)** | (14.7) | 9.9 | 24.6 | | (55.4) | (44.3) | 11.1 | |
| **Accumulated Surplus (Deficit)** | | | | | | | | |
| Opening Balance | 60.2 | 60.2 | 0.0 | | 42.0 | 64.8 | 22.8 | |
| Allocation to Business Loan Fund and Student Loan Fund | (3.5) | (5.3) | (1.8) | | (3.5) | (3.8) | (0.3) | |
| Annual Surplus (Deficit) | (14.7) | 9.9 | 24.6 | | (55.4) | (44.3) | 11.1 | |
| **Closing Balance** | 42.0 (a) | 64.8 | 22.8 | | (16.9) | 16.7 | 33.6 | |

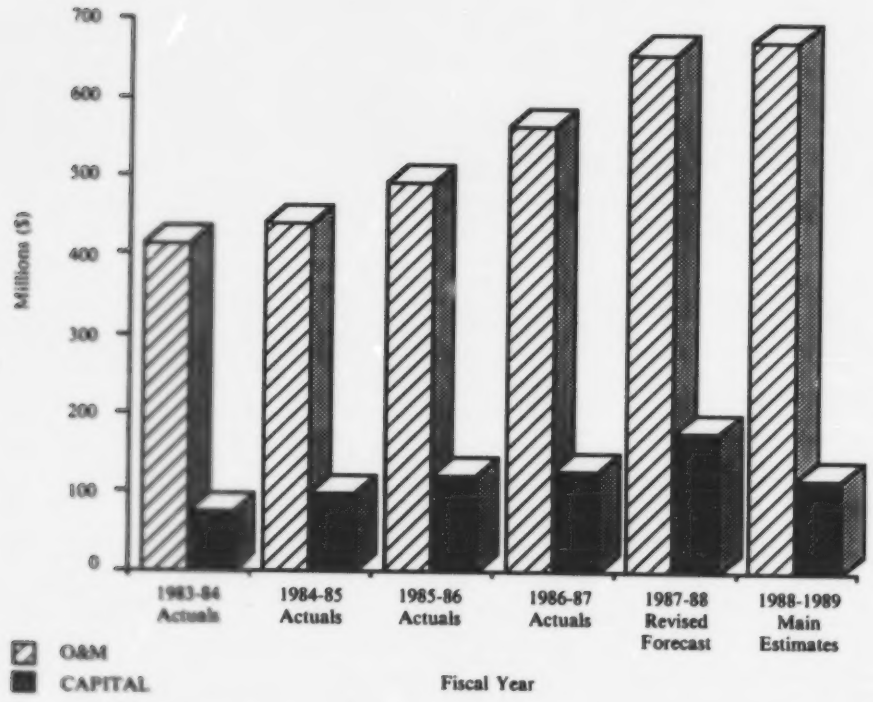
(a) In the 1987-88 Main Estimates document this figure was given as $50.1 million due to the exclusion of $8 million in pending Supplementary Estimates.

# APPENDIX B
# GOVERNMENT EXPENDITURES

Total expenditures by the Government of the Northwest Territories are estimated to be $791 million in 1988-89, a decrease of 5.1 per cent from the revised forecast for 1987-88. Operations and maintenance (O&M) expenditures are estimated at $674 million and capital at $117 million. This represents only a 2.4 per cent increase in O&M spending and a 33.2 per cent decrease in capital spending relative to 1987-88 levels. (1987-88 figures are based on revised estimates, which include supplementary estimates approved prior to December 31, 1987.)

Figure B1 illustrates the levels of O&M and capital expenditures over a six year period.

**FIGURE B1**
**SIX YEAR EXPENDITURE COMPARISON**
**O&M AND CAPITAL**




Source: 1988-1989 Main Estimates and Public Accounts (restated)

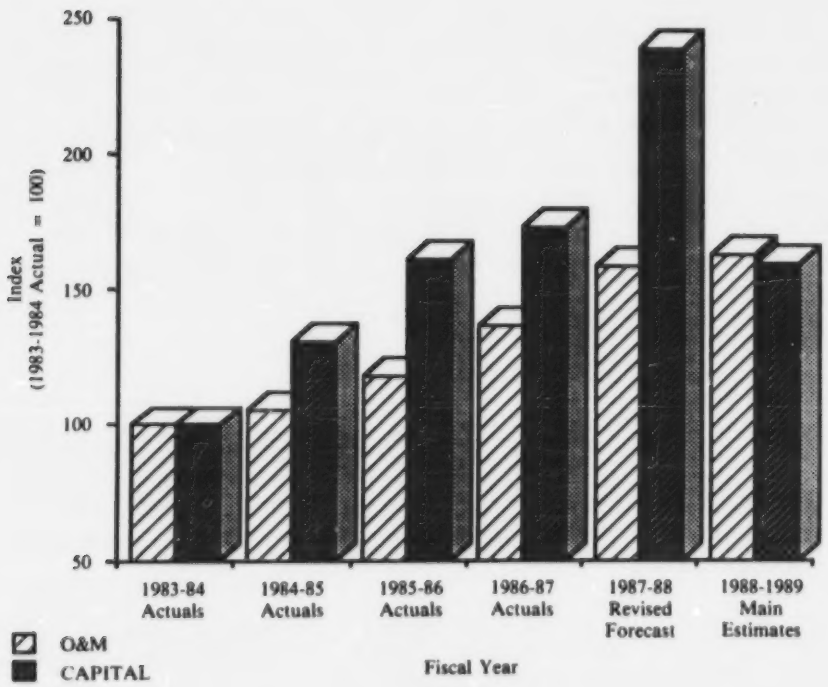
Growth in O&M expenditures between 1987-88 and 1988-89 has been limited to growth due to demand increases and inflation. New initiatives will be met through reallocations within existing departmental budgets.

The 1988-89 capital budget is substantially smaller in response to overall improvements in the economy and to the limited financial resources of the Government of the Northwest Territories.

Expenditures on projects undertaken on behalf of third parties will decline by 25.8 per cent, from $41 million to $31 million. These expenditures are 100 per cent cost recovered from the sponsoring party.

The average annual rate of growth of total expenditures over the past five years (excluding projects undertaken on behalf of third parties) is 10.2 per cent. O&M expenditures have increased by an average 10.3 per cent per year and capital spending by an average 9.8 per cent over the same five year period.

**FIGURE B2**
**SIX YEAR EXPENDITURE COMPARISON**
**O&M AND CAPITAL - RELATIVE GROWTH**




Sources: 1988-1989 Main Estimates and
Public Accounts (restated)

Figure B2 shows the relative growth in both O&M and capital expenditures since 1983-84 using an index where 1983-84 levels are 100. 1988-89 O&M expenditure levels are 63 per cent higher than in 1983-84, while capital expenditure levels are 60 per cent higher.

Capital expenditures peaked in 1987-88 at $176 million as the Government of the Northwest Territories responded to the recession in the Northwest Territories economy. The large capital budget supported employment and investment activity and contributed to the government's long-term goal of providing infrastructure in the Northwest Territories.

Table B1 summarizes Government of the Northwest Territories expenditures by program over the last six years.

**TABLE B1**
**SIX YEAR EXPENDITURE SUMMARY BY PROGRAM**
**1983-84 TO 1988-89**
**($000's)**

| Program | 1983-84 Actuals | 1984-85 Actuals | 1985-86 Actuals | 1986-87 Actuals | 1987-88 Revised Forecast | 1988-89 Main Estimates |
|---|---|---|---|---|---|---|
| Legislative Assembly | 3,264 | 3,800 | 4,012 | 4,368 | 5,391 | 5,624 |
| Executive | 10,117 | 11,076 | 11,686 | 13,559 | 14,208 | 13,969 |
| NWT Housing Corporation | 46,029 | 47,049 | 57,406 | 64,495 | 75,315 | 71,469 |
| Financial Management Secretariat | 917 | 1,062 | 1,281 | 1,339 | 1,465 | 1,481 |
| Finance | 8,852 | 8,179 | 6,879 | 8,364 | 9,548 | 9,986 |
| Culture & Communications | 5,235 | 9,116 | 6,112 | 7,203 | 8,108 | 8,016 |
| Equal Employment Directorate | | | 358 | 816 | 1,116 | 1,063 |
| Personnel | 16,291 | 13,326 | 20,454 | 29,830 | 27,300 | 22,973 |
| Justice | 23,036 | 25,620 | 26,907 | 29,555 | 33,420 | 34,345 |
| Government Services | 17,650 | 16,886 | 19,314 | 21,831 | 23,936 | 22,785 |
| Public Works & Highways | 90,289 | 99,743 | 105,817 | 118,796 | 137,486 | 136,609 |
| Renewable Resources | 10,872 | 11,011 | 13,481 | 15,481 | 40,003 | 38,822 |
| Municipal & Community Affairs | 55,188 | 63,413 | 78,468 | 77,567 | 92,693 | 85,845 |
| Health | 57,617 | 60,912 | 70,504 | 95,406 | 104,591 | 97,782 |
| Social Services | 32,178 | 39,330 | 46,243 | 51,090 | 65,904 | 67,746 |
| Economic Development & Tourism | 15,209 | 18,633 | 25,476 | 29,253 | 30,351 | 31,149 |
| Education | 94,027 | 107,077 | 117,468 | 124,058 | 162,974 | 141,823 |
| Total O&M and Capital | $486,771 | $536,233 | $611,866 | $693,011 | 833,809 | 791,487 |
| Projects on Behalf of Third Parties | 23,313 | 23,633 | 29,961 | 30,827 | 41,326 | 30,683 |
| Total Expenditures | $510,084 | $559,866 | $641,827 | $723,838 | $875,135 | 822,170 |

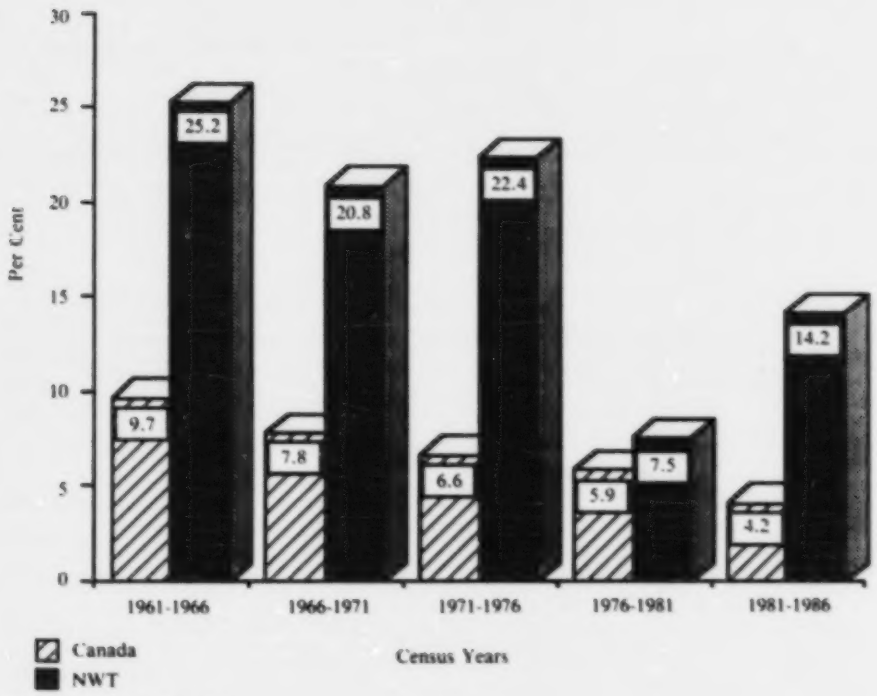
Source: 1988-89 Main Estimates
1983-84 to 1985-86 Public Accounts

The Government of the Northwest Territories has the highest per capita expenditures of any provincial or territorial jurisdiction in Canada. At over $15,000 per capita they are approximately three times the Canadian average. These high expenditure requirements are the result of a number of demographic, social and economic factors.

## DEMOGRAPHIC

The population of the Northwest Territories can best be described in terms of its high growth rate, its youth, and its low density. Each of these elements plays a significant role in determining the expenditure requirements of the territorial government.

**FIGURE B3**
**POPULATION GROWTH**
**CANADA AND NWT**




Source: Statistics Canada

The Northwest Territories has the highest population growth in Canada, putting enormous pressure on expenditures. As Figure B3 illustrates, the growth rate has consistently been significantly higher than the Canadian average.

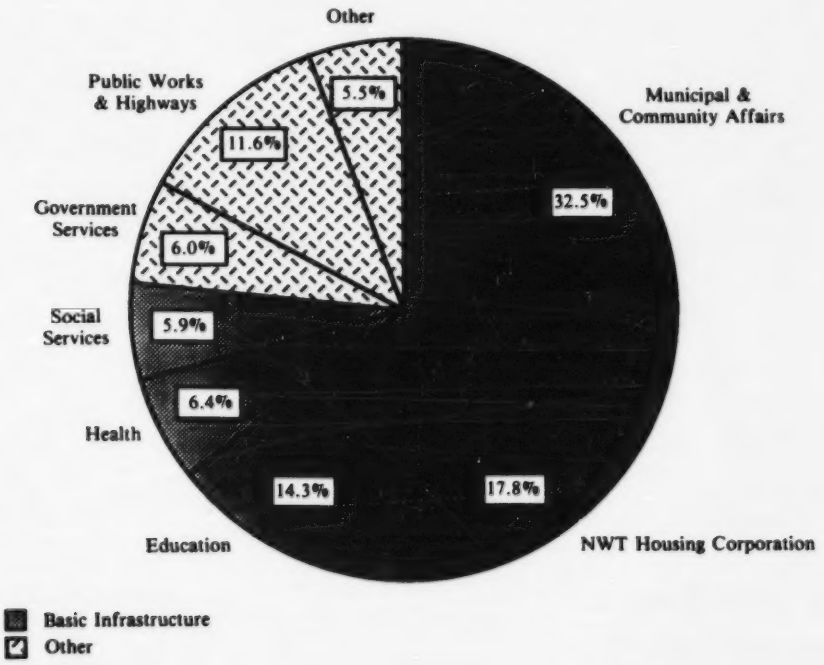
Almost half (47.9 per cent) of expenditures in 1988-89 will be allocated directly to programs such as education, health, social services and housing which are directly affected by population growth. This expenditure is supplemented by significant indirect expenditures in these areas. These are made by other departments, particularly Public Works, in the form of maintenance and utilities for buildings such as schools.

In addition, this high growth rate means that the population of the Northwest Territories is very young. Forty-three per cent of the population is under the age of 19, compared with 29 per cent for Canada. This creates demands for services, such as education, which are aimed at the young. $142 million will be spent by the Department of Education in 1988-89, the largest expenditure of any Government of the Northwest Territories department.

The population of the Northwest Territories was 52,000 in 1986. These people live in small communities spread across an area of 3.3 million square kilometres. Most of the communities have populations of less than five hundred. This extremely low population density means there is a much higher demand for basic infrastructure, in the form of schools, hospitals and municipal services.

## SOCIAL

**FIGURE B4**
**CAPITAL EXPENDITURES**
**1988-89**
**MAJOR EXPENDITURE FUNCTIONS**




Source: 1988-1989 Main Estimates

A number of the health and social problems that the Northwest Territories faces can be linked to a lack of basic services that are taken for

granted in many other parts of Canada. Although great progress has been made in recent years, many northerners still do not have access to levels of public services comparable to those generally available in the rest of Canada. Many health and social problems can be traced to inadequate housing, lack of recreational facilities, distance from medical facilities and the absence of basic municipal services such as sewage systems. Figure B4 illustrates that 77 per cent of the Northwest Territories capital budget is devoted to providing infrastructure in the areas of education, housing, local municipal services, health, recreation and social services.

## ECONOMIC

The economy of the Northwest Territories remains an important factor in the determination of government expenditures. Structurally, the Northwest Territories has a dual economy, one centred in the administrative centres and resource extraction communities, the other based primarily in the more isolated communities. It is in these isolated communities that the erosion of the traditional economic base has had its greatest impact. The lack of development of new economic activity has meant that additional government expenditure is required to provide support.

Finally, the large per capita expenditures incurred by the Government of the Northwest Territories are in part due to the high cost environment. Long distances result in high transportation costs, especially to communities which have no road access. The harsh climate means that utility costs are high. The cost of living in some remote communities can be more than twice the national average. This means that higher costs must be incurred by the government to provide basic services. The government faces higher costs for salaries, for maintenance and for construction.

# APPENDIX C
# GOVERNMENT REVENUES

Total revenues of the Government of the Northwest Territories are estimated to be $799 million in the 1988-89 fiscal year, a 4.2 per cent increase over the revised forecast for 1987-88. On average, revenues have increased by 10.0 per cent annually since 1984-85.

Most of the territorial government's revenues are derived from an annual grant from Canada. Taxes, interest, liquor revenue and transfer payments from the federal government, including Established Programs Financing, make up most of the rest of the government's revenue.

## GRANT FROM CANADA

Over 74 per cent of projected revenues in 1988-89 will come from the grant from Canada. This grant is determined by an agreement with Canada, covering the 1985-86 to 1987-88 fiscal years with a provision for a two year extension by mutual consent of both parties. An agreement for an extension beyond March 31, 1988 has not yet been signed. In principle, the grant is similar to equalization payments received by the provinces in that it is intended to ensure that the territorial government has adequate resources to allow it to provide services reasonably comparable to those in the provinces, at reasonably comparable levels of taxation.

The formula has three basic elements:

### The Base

The base is the total gross expenditure amount that is required each year to provide the current level of services to Northwest Territories residents. The base was negotiated for the first year of formula financing and is increased annually by an escalator determined by the growth in provincial and local government expenditures. In addition, the base has been increased by the amount required to fund programs transferred from the federal government over the past few years.

### Provincial-Local Escalator

The provincial-local government (P-L) escalator is equal to the average growth in the previous three years of the expenditures of provincial and municipal governments in Canada. A three-year average is used to smooth out temporary fluctuations in the expenditures of provinces and municipalities. The escalator is the amount by which the base is multiplied each year to increase funding available to the Northwest Territories. It is intended to ensure that funding for the Northwest Territories increases at the same rate as do the expenditures of provincial and local governments.

### Eligible Revenues

Eligible revenues are equal to the sum of the government's revenues

and recoveries from its own sources, calculated using tax and other rates in effect on March 31, 1985, plus transfer payments.

The annual grant from Canada is equal to the escalated base for the year, less the government's "eligible revenues".

Under the provisions of the formula, changes to government revenues due to economic conditions, such as changes in income tax collections, will result in a dollar for dollar compensating change to the grant. Revenues of the Government of the Northwest Territories will not suffer if tax collections decrease, but conversely, they will not improve if economic conditions generate extra tax revenue.

Revenue changes to the government due to changing tax rates will not affect the calculation of the grant. The government can therefore change the level of its total revenues only through increases in tax rates and levies.

The grant from Canada is expected to go up by $39 million in 1988-89, an increase of 7.1 per cent from its projected 1987-88 level. Since 1984-85, the grant has grown at an average annual rate of 11.9 per cent. In addition to inflationary growth, the growth in the grant is due to transfers of additional responsibilities to the Government of the Northwest Territories and a low rate of growth in eligible revenues. Figure C1 illustrates the growth of revenues, including the grant, from 1984-85 to 1988-89.

Figure C2 shows the relative growth of four main revenue classifications since 1984-85, based on an index with 1984-85 revenues set at 100.

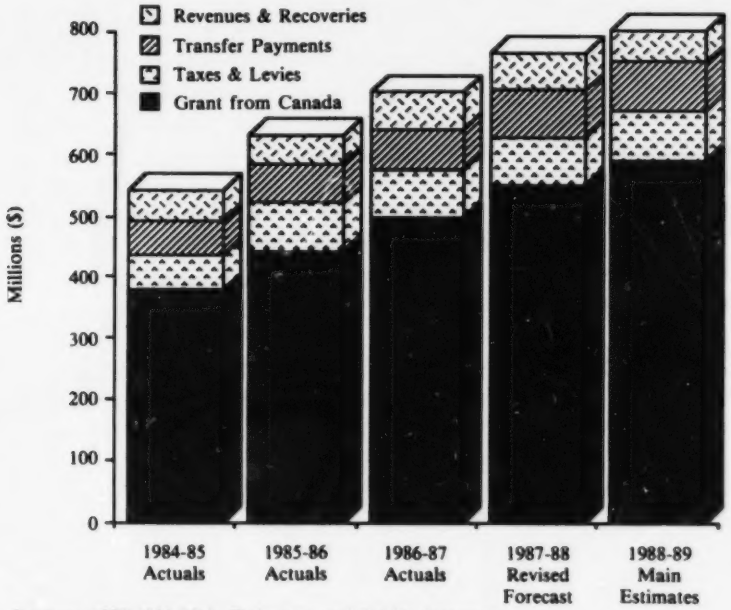
The grant and other transfer payments have been growing at a much faster rate than taxes or other revenues. This can be explained by a number of factors, including:

1) The downturn in the Northwest Territories economy since 1985-86, particularly in the oil and gas sector, which has depressed tax collections.

2) A reduction in other revenues and recoveries, due to lower interest rates, and the government's staff housing policy.

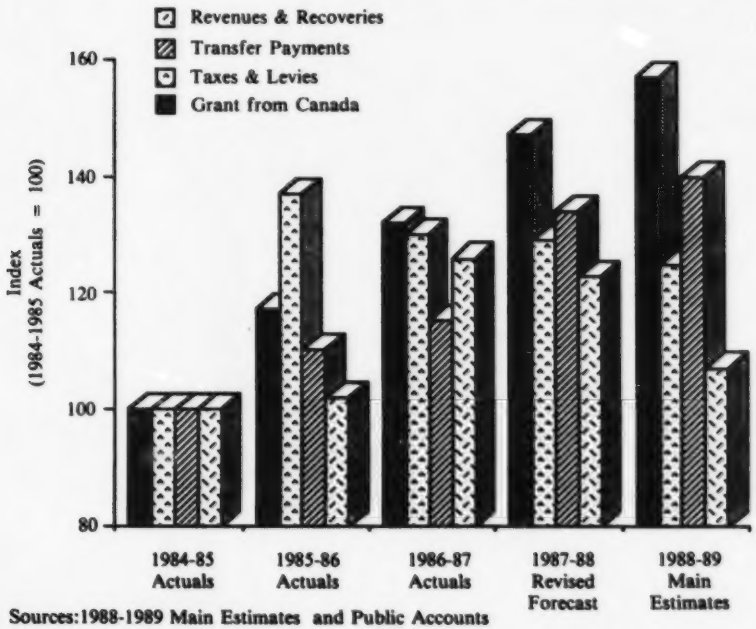
3) Increases in the grant to finance programs such as forestry, highway construction, and health care transferred from the federal government.

## FIGURE C1
## FIVE-YEAR REVENUE COMPARISON
## MAJOR REVENUE SOURCES




Sources: 1988-1989 Main Estimates and Public Accounts

## FIGURE C2
## REVENUE GROWTH
## 1984-1985 to 1988-1989




Sources:1988-1989 Main Estimates and Public Accounts

## TAXES

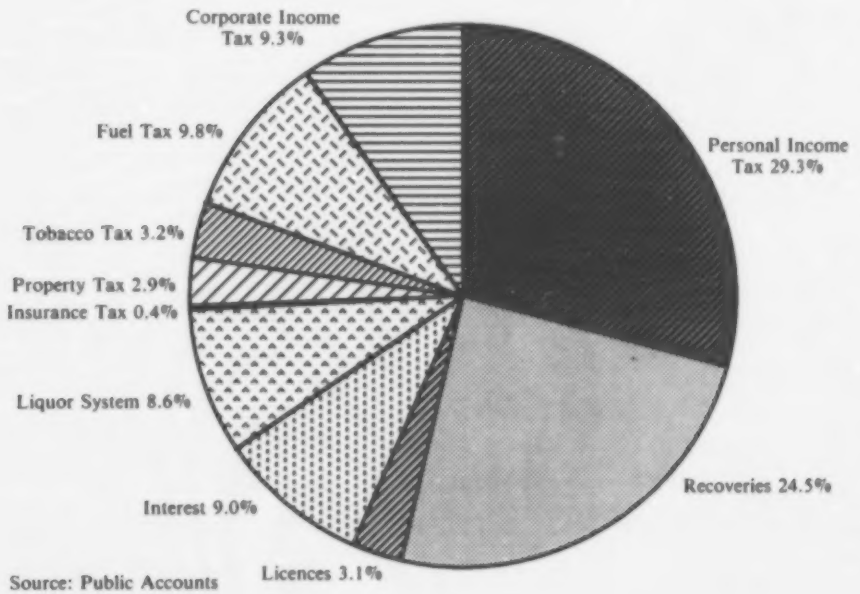
Taxation revenues are expected to fall by 2.8 per cent in 1988-89 to just over $74 million. This expected decline in total tax revenues is primarily due to the continued slowdown in oil exploration activity and the closing of the Pine Point mine.

It is expected that income tax collections in 1988-89 will be well below the peaks reached in 1985-86 because of the economic downturn. Although personal income tax collections should be higher in 1988-89, it is expected that corporate income taxes will continue to fall in the coming year. Changes in income tax revenues tend to lag changes in the economy, because income tax returns are not filed until after the year for which they apply. Corporate income tax collections in the Northwest Territories are very volatile, in part because a large portion of the corporate tax paid comes from a small number of companies.

Fuel tax collections are expected to be lower in 1988-89 because of continued low prices, lower exploration activity, and the shutdown of the Pine Point mine.

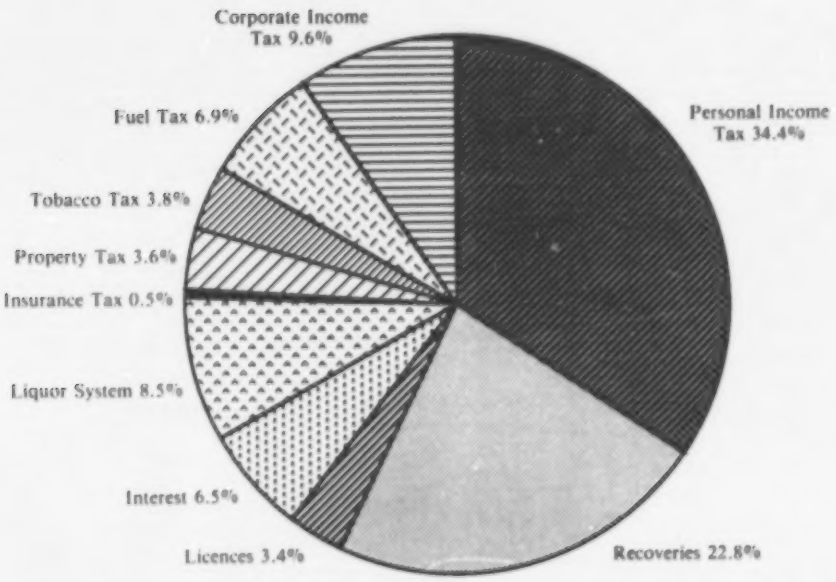
Lower tobacco tax revenues and the very slow growth in liquor revenues reflect the trends towards lower consumption and changing consumption patterns of both alcohol and tobacco in recent years.

**FIGURE C3**
**1984-1985 REVENUES RAISED**
**PERCENTAGE BY SOURCE**




Source: Public Accounts

## FIGURE C4
## 1988-1989 REVENUES RAISED
## PERCENTAGE BY SOURCE




Source: 1988-1989 Main Estimates

Figures C3 and C4 illustrate the distribution of the revenues raised by the Government of the Northwest Territories in 1984-85 and 1988-89 by source. Most striking is the reduction in the proportion of revenue coming from investment interest and fuel taxes between 1984-85 and 1988-89. Interest revenues are down substantially because of lower interest rates and a reduction in the amount of money the Northwest Territories has to invest.

Table C1 summarizes the revenues of the government for the past five years. Only five years are included because the 1983-84 year is not directly comparable due to the start of accrual accounting for revenues.

# TABLE C1
# FIVE YEAR REVENUE SUMMARY BY SOURCE
# 1984-85 TO 1988-89
# ($000's)

| | 1984-85 Actuals | 1985-86 Actuals | 1986-87 Actuals | 1987-88 Revised Forecast | 1988-89 Main Estimates |
|---|---|---|---|---|---|
| **Grant from Canada** | 377,094 | 440,455 | 498,989 | 553,313 | 592,387 |
| **Taxation Revenue** | | | | | |
| Individual Income Tax | 31,624 | 43,955 | 38,528 | 40,351 | 43,509 |
| Corporate Income Tax | 10,061 | 18,150 | 19,760 | 15,945 | 12,155 |
| Fuel Taxes | 10,614 | 11,002 | 9,670 | 10,585 | 8,669 |
| Tobacco Taxes | 3,477 | 4,426 | 4,698 | 5,454 | 4,863 |
| Property and School Taxes | 3,109 | 2,945 | 3,746 | 3,600 | 4,553 |
| Insurance Taxes | 404 | 548 | 643 | 525 | 620 |
| | 59,289 | 81,026 | 77,045 | 76,460 | 74,369 |
| **General Revenues** | | | | | |
| Liquor Control System | 9,291 | 10,075 | 10,180 | 10,472 | 10,733 |
| Interest Income | 9,685 | 9,291 | 10,882 | 9,282 | 8,224 |
| Licences, Fees and Permits | 3,346 | 4,146 | 3,942 | 4,601 | 4,263 |
| Other | 1,557 | | | | |
| | 23,879 | 23,512 | 25,004 | 24,355 | 23,220 |
| **Established Programs Financing** | 17,455 | 14,573 | 17,062 | 19,702 | 19,204 |
| **Other Transfer Payments** | 39,383 | 48,114 | 48,325 | 56,713 | 60,487 |
| **Total Recoveries** | 24,941 | 26,251 | 36,500 | 35,651 | 28,898 |
| **Total Revenues** | $542,041 | $633,931 | $702,925 | $766,194 | $798,565 |
| **Projects on Behalf of Third Parties** | 23,633 | 26,961 | 30,683 | 41,326 | 30,827 |
| **Total** | $565,674 | $660,892 | $733,608 | $807,520 | $829,392 |

Source: 1988-89 Main Estimates
1984-85 and 1985-86 Territorial Accounts (Restated)

# TABLE C2
# MAJOR PROVINCIAL AND TERRITORIAL TAX RATES
# AS OF DECEMBER 31, 1987

| | Personal Income Tax | Retail Sales Tax | Fuel Taxes | | | Tobacco Taxes | | Annual Health Care Premiums | Corporate Income Taxes (%) | | Capital Tax (k) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Province/Territory | (%) | (%) | Gasoline | Diesel | Aviation | Cigarettes | Tobacco | ($)(j) | Small | Large | (%) |
| | | | (cents/litre) | | | ($/ctn) | (¢/gram) | | | | |
| Northwest Territories | 43.0 | - | 8.7(f) | 7.4 | 1.0 | 7.40 | - | - | 10 | 10 | - |
| Yukon | 45.0 | - | 4.2 | 5.2 | 0.7 | 6.40 | 1.14 | - | 5 | 10 | - |
| British Columbia | 51.5 | 6 | 7.5 | 7.9 | 2.6 | 8.16 | 1.62 | 216/456 | 11 | 15 | -/0.6/2.0 |
| Alberta | 46.5(a) | - | 5.0 | 5.0 | 5.0 | 8.00 | 1.65 | 216/432 | 9 | 15 | - |
| Saskatchewan | 50.0(b) | 7 | 7.0 | 7.0 | 7.0 | 9.36 | 1.90 | - | 10 | 17 | 0.5/3.0/3.0 |
| Manitoba | 54.0(c) | 7 | 8.9 | 9.9 | 4.8 | 9.20(h) | 1.60 | - | 10 | 17 | 0.3/3.0/3.0 |
| Ontario | 50.0(d) | 7 | 8.3 | 9.9 | 1.9 | 5.66(h) | 1.60 | 357/714 | 10 | 15.5 | 0.3/0.6/0.8 |
| Quebec | N/A(e) | 9 | 14.4(g) | 12.5 | 9% | 9.04 | 2.00 | - | 3.22 | 5.9 | 0.48/0.97/0.97 |
| New Brunswick | 58.0 | 11 | 7.6 | 8.1 | 2.0 | 8.48 | 50% | - | 9 | 15 | -/2.0/2.0 |
| Nova Scotia | 56.5 | 10 | 8.7 | 9.1 | 0.9 | 9.00 | 50% | - | 10 | 15 | -/1.5/1.5 |
| Prince Edward Island | 55.0 | 10 | 8.9 | 10.6 | 0.7 | 7.00 | 1.30 | - | 10 | 15 | - |
| Newfoundland | 60.0 | 12 | 9.8 | 12.1 | 0.7 | 9.56(h) | 1.56 | - | 10 | 16 | -/2.0/2.0 |
| Canadian Average (i) | 50.9 | 7.1 | 9.5 | 9.7 | 2.7 | 7.63(h) | 1.7 | | 8.2 | 13.0 | 0.3/0.9/1.2 |

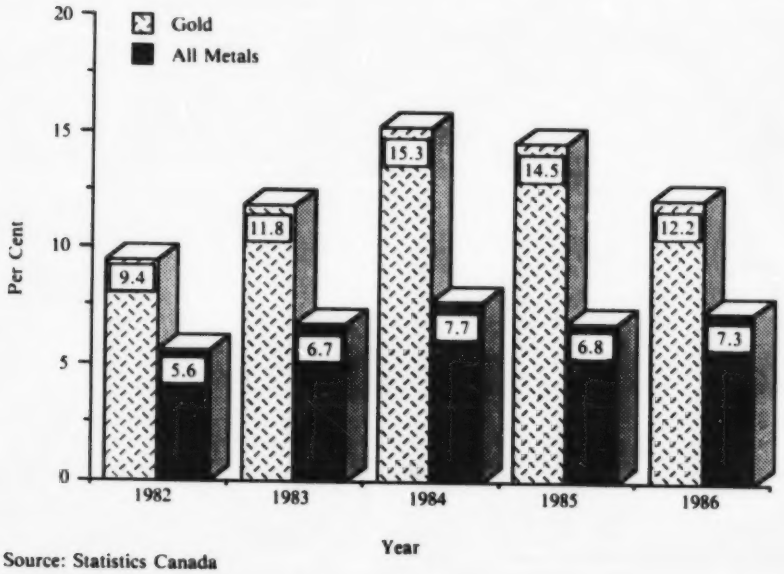
- No tax levied
(a) In addition Alberta imposes a flat tax of 1% of income and a surtax of 8% of provincial tax over $3,500.
(b) In addition Saskatchewan imposes a flat tax of 1.5% of income and a surtax of 12% of provincial tax over $4,000.
(c) In addition Manitoba imposes a flat tax of 1% of income and a surtax of 20% of provincial tax over $2,591.
(d) In addition Ontario imposes a surtax of 3% of provincial tax over $5,000.
(e) Quebec levies a personal income tax directly against net income.
(f) A lower rate of 5.2 cents applies to communities not served by the highway system in the Northwest Territories.
(g) A lower rate of 9.6 cents applies to areas near the border and a lower rate of 12.0 cents applies to northern Quebec.
(h) In addition, Ontario, Manitoba and Newfoundland apply provincial sales tax of 7%, 7% and 12% to sales of tobacco. The Canadian average tax rate is $8.26 per carton when provincial sales tax is included.
(i) Average of all provincial and territorial rates, weighted by population.
(j) Rates shown for health care premiums are for single individuals and families of three or more.
(k) Rates shown for Capital tax are for large corporations, financial institutions, and banks, in the order shown. The bases are different for the different companies.

# APPENDIX D
# THE ECONOMY

The economic structure of the Northwest Territories differs markedly from the structure of any other Canadian provincial economy. Direct measures of each sector's contribution to economic activity and development are not available since there are no published estimates of Gross Domestic Product at factor cost by industry. However, other less precise measures of industrial structure reveal an economy with a goods producing sector nearly entirely concentrated in the primary industries, a very large service producing sector dominated by public and quasi-public institutions and an extremely small manufacturing sector. These sectors are poorly integrated and linkages between industries are weak.

Metal mining is the most important goods producing industry in the Northwest Territories. In 1986, it accounted for approximately 12 per cent of total employment and generated output valued at $640 million. Shipments from the Northwest Territories metal mining industry accounted for 7 per cent of total Canadian mining shipments (excluding mineral fuels) and 12 per cent of total Canadian gold shipments (Figure D1). The other important contribution to primary sector output comes from mineral fuels (oil and gas) which reached a total production of $120 million in 1986.

**FIGURE D1**
**GOLD AND METALS PRODUCTION, NWT**



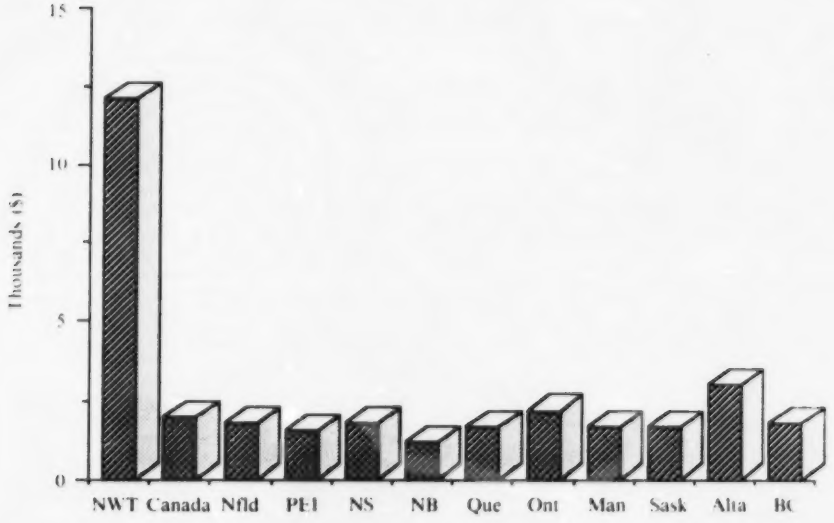

Source: Statistics Canada

Harvesting of renewable natural resources represents a very small proportion of the total value of output from the primary sector. Traditional activities — hunting, fishing and trapping — are nonetheless

of paramount importance in most of the smaller communities where they constitute the main source of cash income.

Construction accounts for virtually all of the remainder of the goods produced. Its relatively large size is partly explained by investment expenditures in support of mining and oil and gas development. During the years of rapid growth in oil and gas activity, of the building of the Norman Wells pipeline, and of development of the Polaris Mine, construction expenditures reached close to $1.5 billion. They have since fallen due to lower mining and oil and gas developments but remain high. The large construction sector also results from large expenditures in social infrastructure and housing required by the high rate of population growth and the need to bring community infrastructure closer to basic Canadian standards. For 1986, private construction expenditures are forecast to total about $635 million or $12,100 per capita, over 6 times the national average (Figure D2).

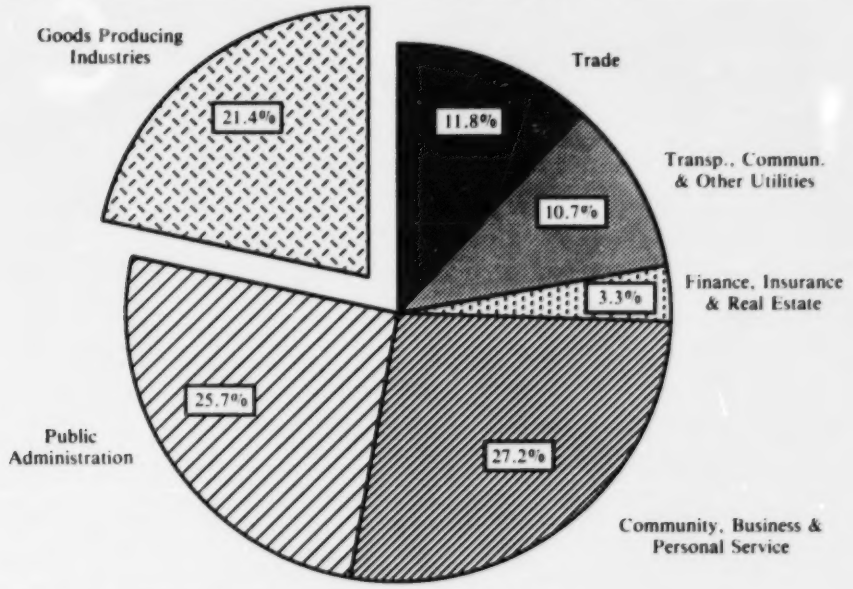
**FIGURE D2**
**PRIVATE CONSTRUCTION EXPENDITURES PER CAPITA, 1986**




Sources: Statistics Canada, Private and Public Investment in Canada and 1986 Census

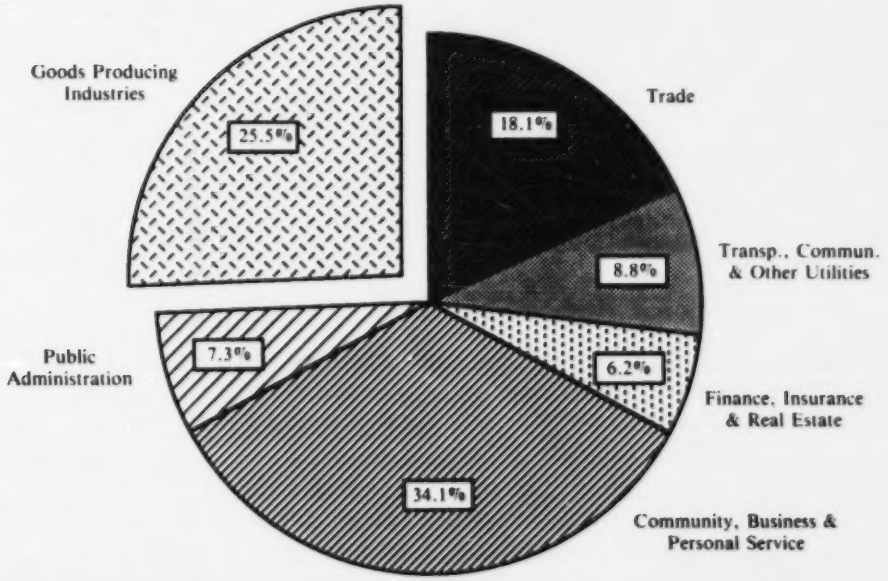
The manufacturing sector is minuscule. Concentrates and ores are processed outside of the Northwest Territories. Manufacturing activities therefore consist of some transformation of renewable natural resources, processing of a limited range of consumer goods and arts and crafts.

## FIGURE D3
## EMPLOYMENT BY INDUSTRY, NWT
## AVERAGE OF 1985 & 1986




Source: Statistics Canada, Survey of Employment, Payrolls and Hours

## FIGURE D4
## EMPLOYMENT BY INDUSTRY, CANADA
## AVERAGE OF 1985 & 1986




Source: Statistics Canada, Survey of Employment, Payrolls and Hours

Markets for some of these goods are fairly strong and offer potential for further development but manufacturing is unlikely to develop significantly in the foreseeable future.

The service producing sector is very large and is the main source of employment. It accounts for approximately 79 per cent of total employment, compared to the Canadian average of 75 per cent. The major sources of service sector employment are government and quasi-public institutions in which almost half of total employment is found (Figures D3 and D4).

The large proportion of employment found in the service producing sector is explained by two factors. First, Northwest Territories goods production is concentrated in industries which are highly capital-intensive.

Secondly, recent rapid growth in the service producing sector was largely unaffected by declines in primary sector activity because of the weak economic linkages. Service sector employment in the Northwest Territories is largely public and quasi-public employment and is population driven. The rapid population growth, which from 1981 to 1986 was three times the Canadian average, results in increased government employment in areas such as education and health. Devolution of responsibilities from the federal government to the territorial government has also pushed up employment in the Government of the Northwest Territories. Finally, the dispersion of the population in small communities spread over a geographic area of 3.3 million square kilometres does not favour economies of scale in the provision of public services.

In view of the economy's special structure, its cyclical behaviour is not directly affected by expansions and contractions in the Canadian economy. The performance of the large primary sector is affected by world market conditions for only six commodities: gold, silver, lead, zinc, oil and gas. It is also particularly sensitive to Canadian policy changes affecting extractive industries. The performance of the service sector, as previously explained, is largely unaffected by domestic cyclical factors.

**Recent Economic Performance**

Although the Territorial Economic Accounts indicate that economic *growth* exceeded the national average over the 1979-86 period by a wide margin and that the economy did not experience a recession in the early 1980's, the overall pace of economic *development* was much less rapid than the data suggests. The rapid run-up in GDP growth occurred in the early 1980's and was the result of large non-recurring expenditures. These included the construction of a pipeline from Norman Wells to northern Alberta, the oil and gas exploration activity spurred by

Petroleum Incentives Payments and the development of the Polaris mine in the high Arctic.

The GDP growth was therefore nearly entirely traceable to investment expenditures with very weak linkages to the rest of the economy. When these projects ended, the Northwest Territories had expanded its export base but its state of economic development was largely unaffected by the projects, with the exception of some communities close to the Beaufort Sea. Using Final Domestic Demand as a measure of the value of economic activity generated from within the Northwest Territories, the economic activity peaked in 1982 and has since recorded declines every year (Table D1).

This fall in economic activity was caused by weak base metal prices which led to mine closures and the end of virtually all investment in new base metal mines. It was also caused by the elimination of Petroleum Incentive Payments which, followed as it was by the decline in world energy prices, brought oil and gas exploration and development to a virtual standstill by the end of 1986. The worst years were 1986 and 1987 when the downturn reached its trough.

The impact on employment was very severe. Industrial employment in the goods producing industries fell by 12 per cent in 1986 and is expected to have fallen by a further 12 per cent in 1987. The existence of a very weak linkage between the goods producing and service producing sectors may have been a blessing in disguise. Employment continued to grow in the much larger service producing sectors and limited the fall in total employment to 0.4 per cent in 1986 and to 1 per cent in 1987. A recovery in employment and output is expected in 1988.

**TABLE D1**
**FINAL DOMESTIC DEMAND**

| | Northwest Territories | | Canada | |
|---|---|---|---|---|
| Year | million ($) | Per Cent Change | million ($) | Per Cent Change |
| 1979 | 1122 | | 269111 | |
| 1980 | 1439 | 28.3 | 303954 | 12.9 |
| 1981 | 2272 | 57.9 | 351102 | 15.5 |
| 1982 | 2835 | 24.8 | 370491 | 5.5 |
| 1983 | 2775 | -2.1 | 397250 | 7.2 |
| 1984 | 2697 | -2.8 | 426719 | 7.4 |
| 1985 | 2457 | -8.9 | 466711 | 9.4 |
| 1986 | 2202 | -10.4 | 501905 | 7.5 |

Sources: Statistics Canada and NWT Bureau of Statistics